

Juyeol Lee: Prospects and Challenges for Sustained Growth in Asia

Welcoming Remarks by Mr Juyeol Lee, Governor of the Bank of Korea, at the 2017 MOSF-BOK-IMF-PIIF International Conference “Prospects and Challenges for Sustained Growth in Asia”, Seoul, September 7, 2017

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Ladies and gentlemen, honored guests!

I am delighted to bid you all a sincere welcome to this conference, hosted jointly by the Ministry of Strategy and Finance, the IMF, the Peterson Institute for International Economics and the Bank of Korea. Let me first express my special gratitude to Managing Director Christine Lagarde, who is here to represent the IMF directly despite her tight schedule. I wish to thank as well President Adam Posen of the Peterson Institute for International Economics, and Director Changyong Rhee of the Asia and Pacific Department of the IMF, who have worked so hard to arrange the joint hosting of this conference starting from the initial planning stage. Appreciation also goes to all of our moderators, presenters and discussants, including First Vice Minister Hyoung-kwon Go, who delivered the welcome address just before, and IMF Economic Counsellor Maurice Obstfeld, who will deliver the dinner speech tonight.

As we are all well aware, the Asian economy has sustained a rapid rate of growth over the past 50 to 60 years, and in doing so served as a locomotive driving growth in the world economy overall. We can look at this as a result of success in the export-led growth strategy, centering around the manufacturing industry and based on surplus labor as well as late-comers' advantages. During this time, the economic growth pattern in Asia has been that when the economies in the countries leading growth have entered their mature stages, the later-developing countries have moved into their places and Asia as a whole has sustained its high growth. Japan came first, to be followed in turn by the so-called four dragons, and then China. Now it is India and the ASEAN countries that are emerging as new runners. In light of this, we expect going forward that the Asian economy will sustain its role as the engine of world economic growth for some time, while showing dynamism centering around later-developing countries.

But there are also not a few claims that this growth strategy has reached its limits. As Asian economies have gradually entered their mature stages, it has become difficult for them to sustain extensive growth strategies based on increasing their production factor inputs. Moreover, in the course of export-led growth centering around the manufacturing industry, sectoral imbalances have built up - between the manufacturing and the service industries, and between exports and domestic demand - and these are becoming obstacles to sustainable growth. For this reason, skeptical views about the Asian economy's future are also emerging in some corners.

Given this mix of expectations and concerns for the Asian economy's future, I think we can see the conference here this week as a very timely and meaningful one, in having brought together many great scholars and policy authorities from around the world, to consider the possibility of sustainable economic growth in Asia and soberly discuss the future challenges and policy responses.

Before discussions begin here today, I would like to say just a few words about some of the challenging tasks now confronting the Asian economy.

The first task is to change our growth paradigm. Going forward we will have to break out of the paradigm of extensive growth based on the expansion of production factor inputs, and move to one of intensive growth driven by innovation. Productivity in major Asian countries has already clearly slowed since the global financial crisis. And in response, we need to design a scheme of social and economic incentives to modernize the old systems and practices now blocking higher productivity growth, and to stimulate innovation. It will also be very important to promote fair competition and revitalize R&D investment, through the restraint of rent seeking and the easing of regulations, and to discover thereby new technologies and new engines of growth.

The second task is to push ahead with economic rebalancing. We need to move from export-led growth to growth characterized by a balance between exports and domestic demand. To boost domestic demand, we need to build a virtuous cycle between growth, employment, and domestic demand by actively nurturing SMEs and service businesses that contribute greatly to job creation. Macroeconomic policy can also be utilized to support the domestic demand expansion. But we should bear in mind that, if expansionary fiscal and monetary policy stances become even a bit prolonged or excessive, this can undermine fiscal soundness and cause a buildup of financial imbalances. It will thus be necessary, while focusing on sustainability from the medium- to long-term perspective, to implement our monetary, fiscal and macroprudential policies harmoniously, along with our micro-structural reform policies.

The third challenging task facing the Asian economy is our response to population aging. Even if we succeed in shifting the growth paradigm, and in rebalancing the economy, a failure in responding to population aging will make the escape from possible structural low growth difficult. Negative effects due to population aging are already appearing in first moving countries like Japan. And in a considerable number of later-developing countries, their so-called population bonus effects are expected to disappear before long. Population aging is progressing rapidly in Asia, while preparations for it are insufficient. In response we will have to reform our labor markets to ensure vigorous participation in economic activities by not only the aged but by youth and women, while on the other hand implementing social and education support policies to increase birth rate.

Ladies and gentlemen!

It is said that our greatest enemy is not something that is external to us, but rather our own internal vanity and inattention. We cannot be content with the remarkable results that our Asian economy has achieved over the past half-century. The challenges that the Asian economy now faces are new ones, ones never previously experienced, but if we remain ever alert to this situation, and make provisions, and in particular if our regional countries cooperate closely, then we can welcome this as an opportunity for one further takeoff.

I look forward to many meaningful measures being presented here today and tomorrow, through active expression of views and enthusiastic debates among participants, which can enable the

Asian economy to overcome the challenges confronting it. Given the difficulty of the challenges before us, your deep and wide-ranging wisdom and insights are very much needed.

I would like to express one more time my profound gratitude to IMF Managing Director Christine Lagarde and all of our other esteemed participants attending this conference.

Thank you.